

Strategic Petroleum Reserve

Strategic Petroleum Reserve

Strategic Petroleum Reserve

Proposed Appropriation Language

For necessary expenses to carry out Strategic Petroleum Reserve facility development and operations and program management activities pursuant to the Energy Policy and Conservation Act of 1975 as amended (42 U.S.C. 6201 et seq.), \$172,100,000 [171,963,000] to remain available until expended.

Explanation of Change

Increase from FY 2004 appropriation (\$171,963,000) reflects full funding for 128 FTEs and technical/program management support.

Strategic Petroleum Reserve

Office of Fossil Energy

Overview

Appropriation Summary by Program

(dollars in thousands)						
	FY 2003 Comparable Appropriation	FY 2004 Comparable Appropriation	FY 2005 Base	FY 2005 Request	FY 2005 Request vs Base	
					\$ Change	% Change
Strategic Petroleum Reserve.....	171,732	170,948	171,355	172,100	+745	+0.4%

Detailed Funding Table

(dollars in thousands)			
Strategic Petroleum Reserve (SPR)			
	FY 2003	FY 2004	FY 2005
Facilities Development and Operation.....	157,823	155,044	155,100
Management.....	13,909	15,904	17,000
Total, SPR.....	171,732	170,948	172,100

Preface

The Strategic Petroleum Reserve provides the United States with adequate strategic and economic protection against disruptions in oil supplies. The program's goal is to mitigate the Nation's energy and security vulnerabilities and to serve as the global benchmark for petroleum reserves.

There are two programs within the Strategic Petroleum Reserve appropriation:

- Facilities Development and Operation
- Management

This Overview will describe Strategic Context, Mission, Benefits, Strategic Goals, and Funding by General Goal. These items together put the appropriation in perspective. The Annual Performance Results and Targets, Means and Strategies and Validation and Verification sections address how the goals will be achieved and how performance will be measured. Finally, this Overview will address the Program Assessment Rating Tool (PART) and Significant Program Shifts in all programs.

Strategic Context

Following publication of the Administration's National Energy Policy, the Department developed a Strategic Plan that defines its mission, four strategic goals for accomplishing that mission, and seven general goals to support the strategic goals. Each appropriation has developed quantifiable goals to support the general goals. Thus the "goal cascade" is the following:

Department Mission → Strategic Goal (25 years) → General Goal (10-15 years) → Program Goal (GPRA Unit) (10-15 years)

To provide a concrete link between budget, performance, and reporting, the Department developed a "GPRA" unit concept. Within DOE, a GPRA Unit defines a major activity or group of activities that support the core mission and aligns resources with specific goals. Each GPRA Unit has completed or will complete a Program Assessment Rating Tool (PART). A unique program goal was developed for each GPRA unit.

The goal cascade accomplishes two things. First, it ties major activities for each program to successive goals, and ultimately to DOE's mission. This helps ensure the Department focuses its resources on fulfilling its mission. Second, the cascade allows DOE to track progress against quantifiable goals and to tie resources to each goal at any level in the cascade. Thus the cascade facilitates the integration of budget and performance information in support of the GPRA and the President's Management Agenda (PMA).

Mission

The mission of the Strategic Petroleum Reserve (SPR) is to store petroleum to reduce the adverse economic impact of a major petroleum supply interruption to the US and to carry out obligations under the international energy program. At the end of 2004, the inventory is projected to be 656 million barrels, which will provide 56 days of net import protection. The Reserve will be filled to its 700 million-barrel capacity in 2005, providing 59 days of net import protection.

Benefits

The U.S. (and trading partner) reliance on oil and U.S. net oil import levels (forecast to increase) combined with location of significant global oil reserves in regions of the world subject to political unrest, have made the U.S. vulnerable to supply disruptions. The presence of the SPR provides protection from supply disruptions.

Strategic Goal

The Department's Strategic Plan identifies four strategic goals: one each for defense, energy, science, and environmental aspects of the mission plus seven general goals that tie to the strategic goals. The Strategic Petroleum Reserve appropriation supports the following goal:

Energy Strategic Goal: To protect our national and economic security by promoting a diverse supply and delivery of reliable, affordable, and environmentally sound energy.

General Goal 4, Energy Security: Improve energy security by developing technologies that foster a diverse supply of reliable, affordable and environmentally sound energy by providing for reliable delivery of energy, guarding against energy emergencies, exploring advanced technologies that make a fundamental improvement in our mix of energy options, and improving energy efficiency.

The programs funded within the Strategic Petroleum Reserve appropriation have one Program Goal that contributes to the General Goals in the “goal cascade”. This goal is:

Program Goal 04.58.00.00: Maintain operational readiness of the Strategic Petroleum Reserve to drawdown at a sustained rate of 4.4 million barrels per day for 90 days, within 15 days notice by the President, and fill the SPR to its current capacity of 700 million barrels by 2005.

Contribution to the General Goal

The programs within the SPR appropriation contribute to General Goal 4 by assuring the Reserve is maintained in a high state of readiness. Assurance is measured by how quickly the program can respond to a Presidential direction to draw down; how much of the oil inventory in SPR storage is available; and the cost efficiency of operations. Facilities Development and Operations funds all requirements associated with developing and maintaining facilities for the storage of petroleum, operations associated with placing petroleum into storage, and operational readiness initiatives associated with drawing down and distributing the inventory in 13 - 15 day s notice in the event of an emergency. Management funds personnel and administrative expenses related to maintaining the Project Management Office (New Orleans, Louisiana) and the Program Office (Washington, DC), as well as contract services required to support management and the technical analysis of program issues.

Funding by General Goal

(dollars in thousands)

	FY 2003	FY 2004	FY 2005	\$ Change	% Change
General Goal 4, Energy Security					
Program Goal 04.58.00.00					
Petroleum Reserves	171,732	170,948	172,100	+1,152	+0.7%
Total.....	173,687	170,948	172,100	+1,152	+0.7%

FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Results	FY 2004 Targets	FY 2005 Targets
<u>Facilities Development & Operations and Management</u>					
Complete the Life Extension Program to ensure the long-term reliability, effectiveness, and operational readiness of SPR facilities and systems. (MET GOAL)					
Ensure the achievement of a calculated site availability of 95 percent or greater with drawdown capability of 4.1 million barrels per day for a sustained 90-day period within 15 days notice by the President. (MET GOAL)					
	Establish a Northeast Heating Oil Reserve of up to two million barrels. (MET GOAL)				
Complete contracting for the transfer and/or exchange of 28 million barrels of Federal Royalty Oil from the Department of the Interior for a net increase of approximately 23 million barrels in the SPR inventory, with deliveries of a remaining four million barrels in FY 2001. (MET GOAL)	Complete the transfer of Phase I - Federal Royalty Oil to the SPR by November 2000 per the FY 1999 Agreement with the Department of Interior. (MET GOAL)	Complete the transfer of Phase II and III - Federal Royalty Oil to the SPR. (MET GOAL - Added approximately 19.6 million of Royalty Oil that contributed to the total delivery to inventory of 42.5 million barrels from all Exchange and Federal Royalty Oil agreements.)	Increase crude oil inventory to 628 million barrels. (GOAL NOT MET - The inventory of the SPR at the end of September was 624.4MMB. The variance was caused by deferral of nearly 20 MMB in oil receipts during the Venezuela oil crisis. For this deferral, we will receive an additional 2.9MMB crude premium.)	Increase crude oil inventory to 656 million barrels.	

FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Results	FY 2004 Targets	FY 2005 Targets
		<p>Achieve maximum sustained (90 day) drawdown rate of 4.2 MMB (MET GOAL)</p> <p>Achieve $\geq 95\%$ of monthly maintenance and accessibility goals. (EXCEEDED GOAL WITH 98%)</p> <p>Award firm fixed-price turnkey (design/build) contract to provide a portable degas plant for continuous removal of excess gas from the SPR crude oil inventory. (MET GOAL)</p> <p>Achieve operating cost per barrel of capacity of \$0.206 (EXCEEDED GOAL WITH \$0.198)</p>	<p>Achieve maximum sustained (90 day) drawdown rate of 4.3 MMB (MET GOAL)</p> <p>Achieve $\geq 95\%$ of monthly maintenance and accessibility goals. (EXCEEDED GOAL WITH 98%)</p> <p>Complete the Degas Plant design. (MET GOAL)</p> <p>Achieve operating cost per barrel of capacity of \$0.213 (EXCEEDED GOAL WITH \$0.2004)</p>	<p>Achieve maximum sustained (90 day) drawdown rate of 4.4 MMB.</p> <p>Achieve $\geq 95\%$ of monthly maintenance and accessibility goals.</p> <p>Commence full Degas Plant operations at a rate of 100,000 – 150, 000 barrels per day by May, 2004 at the Big Hill, TX storage site.</p> <p>Degas 23 MMB of crude oil inventory.</p> <p>Achieve operating cost per barrel of capacity of \$0.207</p>	<p>Achieve maximum sustained (90 day) drawdown rate of 4.4 MMB.</p> <p>Achieve $\geq 95\%$ of monthly maintenance and accessibility goals.</p> <p>Degas 30 MMB of crude oil inventory.</p> <p>Achieve operating cost per barrel of capacity of \$0.207</p>

Means and Strategies

The SPR will use various means and strategies to continue its mission and achieve program goals. Assurance of a readiness posture will be accomplished through internal readiness reviews, assessments, exercises, and tests. Effectiveness of the SPR to mitigate the economic damage of severe oil supply disruptions will be influenced by the SPR's size (inventory and capacity) and ability to deliver into the marketplace. Since FY 1999, the Department has been using agreements with the Department of the Interior to use Federal Royalty Oil to fill the SPR to its 700 million barrel capacity. Completion of deliveries is scheduled for 2005. The SPR's Vapor Pressure Mitigation Program includes construction of a portable vapor pressure (degas) plant for continuous removal of excess gas from the crude oil inventory. Full degas plant operations (at a rate of 100,000 – 150,000 barrels per day) will be initiated in FY 2004.

Performance can be affected by external factors including petroleum market conditions and developments in the commercial distribution system (i.e., pipelines, and terminals). Continuing royalty-in-kind transfers beyond FY 2003 will be contingent on annual delivery targets negotiated with the Department of the Interior.

Validation and Verification

There is a hierarchy of performance information for the SPR. The Department collects & tracks the "critical few" measures. The SPR Program Office monitors limited, specific, short and long-term measures. The SPR Project Management Office manages the detailed, operational measures that are implemented by the contractors. Organizational and action plans are reviewed and analyzed at quarterly Program Reviews. Monthly Project Assessments and Project Reviews are conducted to analyze performance against all milestones and contracts. These reviews provide an opportunity to discuss performance and provide direction to contractors. These same measures are reviewed daily during the site managers' site status meetings. Budget formulation/ execution assessments are regularly conducted throughout the year, including annual budget validations. Other evaluations include: semiannual M&O contractor award fee performance assessments against Work Authorization Directives; on-site reviews to verify operational, maintenance and management performance data; and draw down readiness quarterly reviews.

Program Assessment Rating Tool (PART)

The Department implemented a tool to evaluate selected programs. PART was developed by the Office of Management and Budget (OMB) to provide a standardized way to assess the effectiveness of the Federal Government's portfolio of programs. The structured framework of the PART provides a means through which programs can assess their activities differently than through traditional reviews.

The current focus is to establish outcome- and output-oriented goals, the successful completion of which will lead to benefits to the public, such as increased national security and energy security, and improved environmental conditions. DOE has incorporated feedback from OMB into the FY 2005 Budget Request, and the Department will take the necessary steps to continue to improve performance.

Assessment under the PART found the SPR to be an effective program, well designed with a clear

mission. The total program score was 92%, with individual sections scoring as follows: 1Program Purpose and Design - 100%, Strategic Planning – 88%, Program Management - 100%, and Program Results – 87%. OMB found that the Department’s budget was not sufficiently aligned with program goals to distinguish the impact of funding changes on performance. To address these findings, there is a stronger link between the goals and funding request as shown in this budget submission.

Significant Program Shifts

In November 2001, the President directed the Secretary of Energy to continue using the royalty oil transfer plan initiated in 1999, as a means to fill the Reserve to its current capacity of 700 million barrels. Filling the SPR to 700 million barrels is scheduled for completion in 2005.

The Strategic Petroleum Reserve continues to intermittently operate at a higher security alert. Additional security protection Officers have been placed on duty at all sites and a series of 40 security measures have been implemented, as directed by the Office of Security Operations at Department of Energy headquarters. In addition, permanent physical security enhancements have been implemented in response to the perceived threat of continued terrorist activity.

Due to continued geothermal heating and renewed gas intrusion into the crude oil, the SPR initiated a second vapor pressure mitigation program. Continuous removal of excess gas from the SPR crude oil inventory will commence in May 2004. Through degassing, the SPR will be able to maintain its full mission capability while delivering crude oil that meets all safety and environmental standards.

Strategic Petroleum Reserve Office of Fossil Energy

Funding By Site By Program

	(dollars in thousands)				
	FY 2003	FY 2004	FY 2005	\$Change	%Change
SPR Project Offices	164,605	162,508	163,103	+595	+0.4%
Washington Headquarters	3,469	4,618	5,120	+502	+10.9%
Sandia National Laboratories.....	2,558	2,612	2,667	+55	+2.1%
National Energy Technology Laboratory.....	750	860	860	0	0%
Oak Ridge Operations Office/Oak Ridge National Laboratory.....	350	350	350	0	0%
Total, SPR.....	171,732	170,948	172,100	+1,152	+0.7%

Site Description

SPR Project Offices

The sites located in Texas and Louisiana provide all operational readiness activities (operations, maintenance, security, etc) for the Reserve. Also includes technical and program management support in Washington, DC and New Orleans, Louisiana.

Washington Headquarters

The Washington Headquarters includes technical and program management support in Washington, DC.

Sandia National Laboratory

The Sandia National laboratory, located in Albuquerque, NM, provides technical, comprehensive, site-specific engineering research and development support for the planning, design, development, and monitoring of Strategic Petroleum Reserve (SPR) crude oil storage facilities.

National Energy Technology Laboratory

The National Energy Technology Laboratory (NETL) located in Morgantown, WV, Pittsburgh, PA and Tulsa, OK is a multipurpose laboratory, owned and operated by the U.S. Department of Energy. NETL conducts detailed analysis of crude oil streams, caverns and storage cavern composites to ascertain the quality of stored oil on selected oil samples. These measurements include the vapor pressure and gas-oil ratio.

Oak Ridge National Laboratory

The Oak Ridge National Laboratory (ORNL), located in Oak Ridge, TN, provides analytic support to the SPR by documenting SPR analysis models, assisting in the development of SPR oil valuation and bid analysis tools, evaluating potential applications of DIS-Risk model approach related to energy policy issues and evaluating SPR planning alternatives.

Facilities Development and Operation

Funding Profile by Subprogram

(dollars in thousands)

	FY 2003 Comparable Appropriation	FY 2004 Comparable Appropriation	FY 2005 Base	FY 2005 Request	FY 2005 Request vs Base	
					\$ Change	% Change
Facilities Development and Operations	157,823	155,044	155,044	155,100	+56	+0%
Total, Facilities Development and Operations.....	157,823	155,044	155,044	155,100	+56	+0%

Public Law Authorization:

P.L. 94-163, “Energy Policy and Conservation Act” (FY 2003)

Mission

The mission of Facilities Development and Operation is to provide for all requirements associated with developing and maintaining facilities for the storage of petroleum, as well as operations associated with placing petroleum into storage. Operational readiness activities associated with drawing down and distributing the inventory on a 13-15 day notice in the event of an emergency are also included.

Benefits

Facilities Development and Operation provides funding for protection from supply disruptions. The U.S. (and trading partner) reliance on oil and U.S. net oil import levels (forecast to increase) combined with location of significant global oil reserves in regions of the world subject to political unrest, have made the U.S. vulnerable to supply disruptions.

Detailed Justification

(dollars in thousands)

	FY 2003	FY 2004	FY 2005
Facilities Development and Operations.....	157,823	155,044	155,100

Continue activities for renewed vapor pressure mitigation, to include full degas plant operations at a rate of 100,000 – 150,000 barrels per day. Maintain the Drawdown Readiness Program and perform annual exercises. Continue Recovery Program exercises to maintain readiness and reliability. Address risk reduction by continuing the ES&H program and corrective action plan activity. Continue RIK transfer program with the Department of the Interior to fill the Reserve to capacity in 2005.

**Str tegic Petroleum Reserves
Facilities Development and Operations**

FY 2005 Congressional Budget

FY2004 and FY 2003 activities included completion of site modifications at the Big Hill storage site and initiation of degas activities in May 2004. Continued delivery of exchanged and Federal Royalty Oil. Maintained the Drawdown Readiness Program and performed annual exercises. Continued Recovery Program exercises to maintain readiness and reliability. Continued ES&H Program and corrective action plan activity developed to address unacceptable risk.

Total, Facilities Development and Operations	157,823	155,044	155,100
---	---------	---------	---------

Explanation of Funding Changes

FY 2005 vs.
FY 2004
\$ (000)

Facilities Development & Operations

Increased cost of security requirement (SECON2), offset by decrease in power requirements due to reduction in RIK barrels delivered	+56
Total Funding Change, Facilities Development & Operations	+56

Management

Funding Profile by Subprogram

(dollars in thousands)

	FY 2003 Comparable Appropriation	FY 2004 Comparable Appropriation	FY 2005 Base	FY 2005 Request	FY 2005 Request vs Base	
					\$ Change	% Change
Management	13,909	15,904	16,453	17,000	+547	+3.3%

Mission

The mission of Management is to provide for all costs of personnel and administration related to maintaining the Project Management Office in New Orleans, Louisiana and the Program Office in Washington, DC. Includes funding for contract services required to support management and the technical analysis of program issues.

Benefits

Management provides funding for federal staff and contract support services to ensure protection from oil supply disruptions. Reliance on oil and U.S. net oil import levels (forecast to increase) combined with location of significant global oil reserves in regions of the world subject to political unrest, have made the U.S. vulnerable to oil supply disruptions.

Detailed Justification

(dollars in thousands)

	FY 2003	FY 2004	FY 2005
Salaries and Benefits	12,238	12,382	12,931

Funds salaries and benefits for 128 full time equivalent employees to assure achievement of Level 1 Performance criteria for drawdown and distribution. Provide for support and oversight of M&O contractor and subcontractor activities and program operations.

140 473 493

Provides travel to assure capability to achieve Level 1 Performance criteria for drawdown and distribution. FY 2003 requirements were offset with available carryover. FY2004 and FY 2005 reflect full funding requirements.

Support Services	986	1,000	1,400
-------------------------------	-----	-------	-------

Provide analytic support for SPR development, fill and distribution policy decisions. Includes distribution modeling maintenance. FY 2003 and FY 2004 requirements were offset with available carryover. FY 2005 reflects full funding requirements.

Other Related Expenses	545	2,049	2,176
-------------------------------------	-----	-------	-------

Major elements are communications, building lease and electric power for DOE-occupied space (New Orleans, Louisiana), training, small purchases, and personal computer hardware and software. Also includes contractual services, supplies and materials.

Total, Management	<u>13,909</u>	<u>15,904</u>	<u>17,000</u>
--------------------------------	---------------	---------------	---------------

Explanation of Funding Changes

<p>FY 2005 vs. FY 2004 \$ (000)</p>
--

Management

Mandatory increase for Cost of Living adjustment and general pay raises.....	+ 549
Increase reflects full funding for 128 FTE's and technical/program management support	<u>+547</u>
Total Funding Change, Management	<u>+1,096</u>

Management

Funding Profile by Category

(dollars in thousands/whole FTEs)

	FY 2003	FY 2004	FY 2005	\$ Change	% Change
Washington Headquarters					
Salaries and Benefits.....	2,998	3,113	3,243	+130	+4.2%
Travel.....	140	160	180	+20	+12.5%
Support Services	986	1,000	1,400	+400	+40.0%
Other Related Expenses	494	543	787	+244	+44.9%
Total, Washington Headquarters	4,618	4,816	5,610	+794	+16.5%
Full Time Equivalents	27	27	27	0	0.0%
Strategic Petroleum Reserve Project Office					
Salaries and Benefits.....	9,240	9,269	9,688	+419	+4.5%
Travel.....	0	313	313	0	+0%
Support Services	0	0	0	0	+0%
Other Related Expenses	51	1,506	1,389	-117	-7.8%
Total, Strategic Petroleum Reserve Project Office.....	9,291	11,088	11,390	+302	+2.7%
Full Time Equivalents	101	101	101	0	0.0%
Total, Strategic Petroleum Reserve					
Salaries and Benefits.....	12,238	12,382	12,931	+549	+4.4%
Travel.....	140	473	493	+20	+4.2%
Support Services	986	1,000	1,400	+400	+40.0%
Other Related Expenses	545	2,049	2,176	+127	+6.2%
Total, Strategic Petroleum Reserve	13,909	15,904	17,000	+1,096	+6.9%
Total, Full Time Equivalents	128	128	128	0	0.0%

**SUMMARY OF SUPPORT FOR
ENERGY INFORMATION ADMINISTRATION (EIA)**

Strategic Petroleum Reserve

(dollars in thousands)

PROGRAM	FY 2003	FY 2004	FY 2005
Energy Modeling Forum	6	5	5
ADP System Utilization	50	50	50
Petroleum Analysis/Subscripts	<u>85</u>	<u>65</u>	<u>65</u>
Total	140	120	120

Per the Memorandum of Understanding between the EIA and SPR dated June 13, 1983, funding is provided for the services as computer usage and hardware support, logistics information, and data collection.

SPR Petroleum Account

Office of Fossil Energy

Overview

Appropriation Summary by Program

(dollars in thousands)						
	FY 2003 Comparable Appropriation	FY 2004 Comparable Appropriation	FY 2005 Base	FY 2005 Request	FY 2005 Request vs Base	
					\$ Change	% Change
SPR Petroleum Account	6,955	0	0	0	0	+0.0%
Rescission of Previously Appropriated Funds	-5,000	0	0	0	0	+0.0%
Total, SPR Petroleum Account	1,955	0	0	0	0	+0.0%

Detailed Funding Table

				(dollars in thousands)		
				FY 2003	FY 2004	FY 2005
SPR Petroleum Account						
Oil Acquisition & Transportation.....				6,955	0	0
Rescission of Previously Appropriated Funds.....				-5,000		
Total, SPR Petroleum Account.....				1,955	0	0

Preface

The Strategic Petroleum Reserve (SPR) provides the United States with strategic and economic protection against disruptions in oil supplies. The program's goal is to mitigate the Nation's energy and security vulnerabilities.

The SPR Petroleum Account appropriation funds Oil Acquisition and Transportation activities for the Reserve.

This Overview will describe Strategic Context, Mission, Benefits, Strategic Goals, and Funding by General Goal. These items together put the appropriation in perspective. The Annual Performance Results and Targets, Means and Strategies and Validation and Verification sections address how the goals will be achieved and how performance will be measured. Finally, this Overview will address the Program Assessment Rating Tool (PART) and Significant Program Shifts in all programs.

Strategic Context

Following publication of the Administration's National Energy Policy, the Department developed a Strategic Plan that defines its mission, four strategic goals for accomplishing that mission, and seven general goals to support the strategic goals. Each appropriation has developed quantifiable goals to support the general goals. Thus the "goal cascade" is the following:

Department Mission → Strategic Goal (25 years) → General Goal (10-15 years) → Program Goal (GPRA Unit) (10-15 years)

To provide a concrete link between budget, performance, and reporting, the Department developed a "GPRA" unit concept. Within DOE, a GPRA Unit defines a major activity or group of activities that support the core mission and aligns resources with specific goals. Each GPRA Unit has completed or will complete a Program Assessment Rating Tool (PART). A unique program goal was developed for each GPRA unit.

The goal cascade accomplishes two things. First, it ties major activities for each program to successive goals, and ultimately to DOE's mission. This helps ensure the Department focuses its resources on fulfilling its mission. Second, the cascade allows DOE to track progress against quantifiable goals and to tie resources to each goal at any level in the cascade. Thus the cascade facilitates the integration of budget and performance information in support of the GPRA and the President's Management Agenda (PMA).

Mission

The mission of the Strategic Petroleum Reserve (SPR) is to store petroleum to reduce the adverse economic impact of a major petroleum supply interruption to the US and to carry out obligations under the international energy program. At the end of 2004, the inventory is projected to be 656 million barrels, which will provide 56 days of net import protection. The Reserve will be filled to its 700 million-barrel capacity in 2005, providing 59 days of net import protection.

Benefits

The U.S. (and trading partner) reliance on oil and U.S. net oil import levels (forecast to increase) combined with location of significant global oil reserves in regions of the world subject to political unrest, have made the U.S. vulnerable to supply disruptions. The presence of the SPR provides protection from supply disruptions.

Strategic Goal

The Department's Strategic Plan identifies four strategic goals (one each for defense, energy, science, and environmental aspects of the mission plus seven general goals that tie to the strategic goals. The Strategic Petroleum Reserve appropriation supports the following goal:

Energy Strategic Goal: To protect our national and economic security by promoting a diverse supply and delivery of reliable, affordable, and environmentally sound energy.

General Goal 4, Energy Security: Improve energy security by developing technologies that foster a diverse supply of reliable, affordable and environmentally sound energy by providing for reliable delivery of energy, guarding against energy emergencies, exploring advanced technologies that make a fundamental improvement in our mix of energy options, and improving energy efficiency.

The programs funded within the Strategic Petroleum Reserve appropriation have one Program Goal that contributes to the General Goals in the “goal cascade”. This goal is:

Program Goal 04.58.00.00: Maintain operational readiness of the Strategic Petroleum Reserve to drawdown at a sustained rate of 4.4 million barrels per day for 90 days, within 15 days notice by the President, and fill the SPR to its current capacity of 700 million barrels by 2005.

Contribution to the General Goal

The programs within the SPR appropriation contribute to General Goal 4 by assuring the Reserve is maintained in a high state of readiness. Assurance is measured by how quickly the program can respond to a Presidential direction to draw down; how much of the oil inventory in SPR storage is available; and the cost efficiency of operations. Facilities Development and Operations funds all requirements associated with developing and maintaining facilities for the storage of petroleum, operations associated with placing petroleum into storage, and operational readiness initiatives associated with drawing down and distributing the inventory in 13 - 15 days notice in the event of an emergency. Management funds personnel and administrative expenses related to maintaining the Project Management Office (New Orleans, Louisiana) and the Program Office (Washington, DC), as well as contract services required to support management and the technical analysis of program issues.

Funding by General Goal

(dollars in thousands)

	FY 2003	FY 2004	FY 2005	\$ Change	% Change
General Goal 4, Energy Security Program Goal 04.58.00.00 Petroleum Reserves.....	6,955	0	0	0	+0%
Rescission of Previously Appropriated Funds.....	-5,000				
Total.....	1,955	0	0	0	+0%

FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Results	FY 2004 Targets	FY 2005 Targets
<u>Oil Acquisition and Transportation</u>					
Complete contracting for the transfer and/or exchange of 28 million barrels of Federal Royalty Oil from the Department of the Interior for a net increase of approximately 23 million barrels in the SPR inventory, with deliveries of a remaining four million barrels in FY 2001. (MET GOAL)	Complete the transfer of Phase I - Federal Royalty Oil to the SPR by November 2000 per the FY 1999 Agreement with the Department of Interior. (MET GOAL)	Complete the transfer of Phase II and III - Federal Royalty Oil to the SPR. (MET GOAL - Added approximately 19.6 million of Royalty Oil that contributed to the total delivery to inventory of 42.5 million barrels from all Exchange and Federal Royalty Oil agreements.)	Increase crude oil inventory to 628 million barrels. (GOAL NOT MET - The inventory of the SPR at the end of September was 624.4MMB. The variance was caused by deferral of nearly 20 MMB in oil receipts during the Venezuela oil crisis. For this deferral, we will receive an additional 2.9MMB crude premium.)	Increase crude oil inventory to 656 million barrels.	

Means and Strategies

The SPR will use various means and strategies to continue its mission and achieve program goals. Assurance of a readiness posture will be accomplished through internal readiness reviews, assessments, exercises, and tests. Effectiveness of the SPR to mitigate the economic damage of severe oil supply disruptions will be influenced by the SPR's size (inventory and capacity) and ability to deliver into the marketplace. Since FY 1999, the Department has been using agreements with the Department of the Interior to use Federal Royalty Oil to fill the SPR to its 700 million barrel capacity. Completion of deliveries is scheduled for 2005.

Performance can be affected by external factors including petroleum market conditions and developments in the commercial distribution system (i.e., pipelines, and terminals). Continuing royalty-in-kind transfers beyond FY 2003 will be contingent on annual delivery targets negotiated with the Department of the Interior.

Validation and Verification

There is a hierarchy of performance information for the SPR. The Department collects & tracks the "critical few" measures. The SPR Program Office monitors limited, specific, short and long-term measures. The SPR Project Management Office manages the detailed, operational measures that are implemented by the contractors. Organizational and action plans are reviewed and analyzed at quarterly Program Reviews. Monthly Project Assessments and Project Reviews are conducted to analyze performance against all milestones and contracts. These reviews provide an opportunity to discuss performance and provide direction to contractors. These same measures are reviewed daily during the site managers' site status meetings. Budget formulation/ execution assessments are regularly conducted throughout the year, including annual budget validations. Other evaluations include: semiannual M&O contractor award fee performance assessments against Work Authorization Directives; on-site reviews to verify operational, maintenance and management performance data; and draw down readiness quarterly reviews.

Program Assessment Rating Tool (PART)

The Department implemented a tool to evaluate selected programs. PART was developed by the Office of Management and Budget (OMB) to provide a standardized way to assess the effectiveness of the Federal Government's portfolio of programs. The structured framework of the PART provides a means through which programs can assess their activities differently than through traditional reviews.

The current focus is to establish outcome and output oriented goals, the successful completion of which will lead to benefits to the public, such as increased national security and energy security, and improved environmental conditions. DOE has incorporated feedback from OMB into the FY 2005 Budget Request, and the Department will take the necessary steps to continue to improve performance.

Assessment under the PART found the SPR to be an effective program, well designed with a clear mission. The total program score was 92%, with individual sections scoring as follows: Program Purpose and Design - 100%, Strategic Planning – 88%, Program Management - 100%, and Program Results – 87%. OMB found that the Department's budget was not sufficiently aligned with program

goals to distinguish the impact of funding changes on performance. To address these findings, there is a stronger link between the goals and funding request as shown in this budget submission.

Significant Program Shifts

In November 2001, the President directed the Secretary of Energy to continue using the royalty oil transfer plan initiated in 1999, as a means to fill the Reserve to its current capacity of 700 million barrels. Fill of the SPR to 700 million barrels is scheduled for completion in 2005. Funding was not requested for Royalty Oil expenses beginning in FY 2004 due to contractual changes making transportation charges for Royalty-In-Kind fill the responsibility of the contractors.

SPR Petroleum Account **Office of Fossil Energy**

Funding by Site by Program

	(dollars in thousands)				
	FY 2003	FY 2004	FY 2005	\$Change	%Change
Strategic Petroleum Reserve					
Project Office	6,955	0	0	0	+0%
Rescission of Previously					
Appropriated Funds.....	-5,000				
Total, SPR Petroleum					
Account.....	1,955	0	0	0	+0%

Public Law Authorizations:

P.L. 94-163, "Energy Policy and Conservation Act" (FY 2003)

Site Description

Strategic Petroleum Reserve Project Office

The SPR Project Office, located in New Orleans, LA, funds transportation activities related to fill of the Reserve to its current capacity of 700 million barrels.

SPR Petroleum Account Office of Fossil Energy

Funding Profile by Subprogram

(dollars in thousands)						
	FY 2003 Comparable Appropriation	FY 2004 Comparable Appropriation	FY 2005 Base	FY 2005 Request	FY 2005 Request vs Base	
					\$ Change	% Change
Oil Acquisition & Transportation	6,955	0	0	0	0	+0%
Rescission of Previously Appropriated Funds.....	-5,000					
Total, SPR Petroleum Account.....	1,955	0	0	0	0	+0%

Mission

The mission of the SPR Petroleum Account subprogram is to fund drawdowns and sales operations per the provisions of the Omnibus Budget Reconciliation Act of 1981 P.L. 97-35. The Strategic Petroleum Reserve (SPR) was created by the Energy Policy and Conservation Act (EPCA) of 1975 to provide the United States with adequate strategic and economic protection against disruptions in oil supplies.

Benefits

U.S. (and trading partner) reliance on oil and U.S. net oil import levels (forecast to increase) combined with location of significant global oil reserves in regions of the world subject to political unrest, have made the U.S. vulnerable to supply disruptions. The presence of the SPR provides protection from supply disruptions.

Detailed Justification

	(dollars in thousands)		
	FY 2003	FY 2004	FY 2005
Oil Acquisition and Transportation.....	6,955	0	0
Rescission of Previously Appropriated Funds.....	-5,000		
Oil Acquisition and Transportation ..	1,955	0	0
FY 2003 activities support continued Royalty-in-Kind (RIK) transfers to fill the Reserve to capacity. Funding is not being requested in FY 2004 and FY 2005 due to contractual changes making transportation charges the responsibility of the contractors.			
Total, Oil Acquisition and Transportation ...	1,955	0	0

Explanation of Funding Changes

N/A

Northeast Home Heating Oil Reserve

Proposed Appropriation Language

For necessary expenses for Northeast Home Heating Oil Reserve storage, operations and management activities pursuant to the Energy Policy and Conservation Act of 2000 (Public Law 106-469), \$5,000,000 to remain available until expended.

Explanation of Change

The only change from the language proposed in FY 2004 is to the proposed funding amount. FY 2004 reflects the application of a rescission.

Northeast Home Heating Oil Reserve

Office of Fossil Energy

Overview

Appropriation Summary by Program

(dollars in thousands)

	FY 2003 Comparable Appropriation	FY 2004 Comparable Appropriation	FY 2005 Base	FY 2005 Request	FY 2005 Request vs Base	
					\$ Change	% Change
Northeast Home Heating Oil Reserve.....	5,961	4,939	4,939	5,000	+61	+1.0%

Preface

The Northeast Home Heating Oil Reserve is a permanent part of America's energy readiness effort (separate from the Strategic Petroleum Reserves)- assuring home heating oil supply for the Northeast states during times of very low inventories and significant threats to immediate further supply.

Mission

On July 10, 2000, the President directed the Department of Energy to establish a heating oil reserve in the Northeast capable of assuring home heating oil for the Northeast states during times of very low inventories and significant threats to immediate further supply. On March 6, 2001, Energy Secretary Abraham formally notified Congress that the Administration would establish the Reserve as a permanent part of America's energy readiness effort, separate from the Strategic Petroleum Reserve.

Benefits

Two million barrels of heating oil will protect the Northeast against a disruption for 10 days, the time required for ships to carry heating oil from the Gulf of Mexico to New York harbor for distribution. The Reserve was originally established in commercial facilities located in New York Harbor and New Haven, Connecticut. In 2001, the Secretary approved the relocation of 250,000 barrels of heating oil inventory from Connecticut to Rhode Island, giving the reserve additional truck and marine loading options.

Significant Program Shifts

None.

Northeast Home Heating Oil Reserve

Funding by Site by Program

(dollars in thousands)					
	FY 2003	FY 2004	FY 2005	\$Change	%Change
Northeast Home Heating Oil Reserve					
Amerada Hess	1,800	2,280	2,280	0	0%
Motiva (New haven, CT)	1,140	600	600	0	0%
Morgan Stanley	1,200	1,200	1,200	0	0%
Motiva (Providence, RI)	0	600	600	0	0%
Strategic Petroleum Reserve					
Project Office	1,621	20	20	0	0%
Washington Headquarters	200	239	300	+61	+1.2%
	<hr/>				
Total, NEHHOR	5,961	4,939	5,000	+61	+1.0%

Site Description

Amerada Hess (Woodbridge, NJ)

The Amerada Hess Terminal is located in the New York Harbor (Woodbridge, NJ) currently holds 1 million barrels of home heating oil.

Motiva (New Haven, CT)

The Motiva Terminal is located in New Haven, CT and currently holds 250,000 barrels of home heating oil.

Morgan Stanley (New Haven, CT)

The Morgan Stanley Terminal is located in New Haven, CT and currently holds 500,000 barrels of home heating oil.

Motiva (Providence, RI)

The Motiva Terminal is located in Providence, RI, and currently holds 250,000 barrels of home heating oil.

Strategic Petroleum Reserve Project Office

The project office is located in New Orleans, LA and administers the quality and management surveillance support from Defense Energy Support Center (DESC).

Washington Headquarters

The headquarters office located in Washington, DC handles development and maintenance of the Northeast Home Heating Oil Reserve bid platform and other technical and management support to maintain readiness.

Northeast Home Heating Oil Reserve

Funding Profile by Subprogram

	(dollars in thousands)				
	FY 2003	FY 2004	FY 2005	\$ Change	% Change
Northeast Home Heating Oil Reserve	5,961	4,939	5,000	61	+1%

Public Law Authorization:

P.L. 94-163, "Energy Policy and Conservation Act" (FY 2003)

Mission

The Northeast Home Heating Oil Reserve assures a home heating oil supply for the Northeast states during times of very low inventories and significant threats to immediate further supply. The Reserve is a permanent part of America's energy readiness effort, separate from the Strategic Petroleum Reserve. The current structure of the Northeast Home Heating Oil Reserve is:

Location	Amount of distillate	Distribution Capability (minimum contractual capabilities)
Amerada Hess (NY harbor)	1,000,000 BBL	100,000 BPD
Motiva (New Haven, CT)	250,000 BBL	25,000 BPD
Morgan Stanley (New Haven, CT)	500,000 BBL	50,000 BPD
Motiva (Providence, RI)	250,000 BBL	25,000 BPD

Benefits

Two million barrels of heating oil will protect the Northeast against a disruption for 10 days, the time required for ships to carry heating oil from the Gulf of Mexico to New York harbor for distribution. The Reserve was originally established in commercial facilities located in New York Harbor and New Haven, Connecticut. In 2001, the Secretary approved the relocation of 250,000 barrels of heating oil inventory from Connecticut to Rhode Island, giving the reserve additional truck and marine loading options.

Northeast Home Heating Oil Reserve
Funding by Site

FY 2005 Congressional Budget

Detailed Justification

(dollars in thousands)

	FY 2003	FY 2004	FY 2005
Northeast Home Heating Oil Reserve...	5,961	4,939	5,000

Continues operation of the Reserve, including lease of commercial storage space, and administrative support from the Defense Energy Support Center.

FY2004 and FY 2003 activities included storage leases, administration, and mock sales exercises with industry participation to test and evaluate the sales processes, procedures and on-line system.

Northeast Home Heating Oil Reserve...	5,961	4,939	5,000
--	-------	-------	-------

Explanation of Funding Changes

Northeast Home Heating Oil Reserve



- Increase reflects the difference between FY 2004 with a rescission and the actual FY 2005 Congressional Budget Request +61
- Total Funding Change, Northeast Home Heating Oil Reserve +61

